U.S.-India Trade

There Must Be Progress and Results

By LAURINDA KEYS LONG

The United States and India could—"absolutely"—someday negotiate a free trade agreement, says America's No. 2 trade official, Karan Bhatia. But significant challenges will take years to resolve and steady progress toward a more open and balanced commercial relationship is essential.

"I'm optimistic," Deputy U.S. Trade Representative Bhatia told SPAN in June during a visit to shepherd the "nascent, developing trade dialogue" between the United States and India. Other high-level U.S. trade dialogues, chaired at the ministerial level, exist only with China and the European Union. India's inclusion in this category with the formation of the Trade Policy Forum last November is a significant development, says Bhatia. "But if it's going to mean something, it's got to continue to produce results, which means really removing barriers to trade and investment."

President George W. Bush and Prime Minister Manmohan Singh have committed to the goal of doubling U.S.-India trade within three years. There is a relatively low starting base of about $30 billion in annual goods and services trade, compared to annual U.S. trade with China, at around $285 billion. Thus, doubling trade between the United States and India means adding just another $30 billion, so it's a realistic goal, Bhatia says.

Deputy U.S. Trade Representative Karan Bhatia

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That doesn't mean it will be obstacle-free. "We're going to have to see steady progress if that goal's going to be achieved," he says. "I'd like to see restrictions lifted, impediments to trade both ways being addressed so that our businesses have an easier time investing in India and Indian businesses have an easier time investing in the United States."

So is a free trade agreement (FTA) a conceivable vision someday? "There are a lot of issues that we would have to work out," Bhatia answers. "India continues to have a very highly protective agricultural sector, for instance, and the hallmark of our FTAs is that they basically take tariffs down to zero. So that would be a significant issue. Intellectual property rights protection is another area that India would need to move substantially on. So there are some things that probably are challenges that are going to have to be addressed over the course of years, not months. But, could I foresee a day when the U.S. and India might enter FTA negotiations? Absolutely."

One reason for Bhatia's optimism is his role—when he was Assistant Secretary for Aviation and International Affairs at the Department of Transportation—in bringing about the "open skies" agreement that India and the United States signed last year.

"Sometimes things happen very quickly when you have the right people pushing it and I think that was the secret of open skies," says Bhatia. "It's important to look for places where the United States and India have common interests. And open skies is something that we had invested deeply in as a concept. It worked very nicely with the Indians' need to reform the sector and to liberalize and introduce greater competition. So those are principles that I think we're trying to apply in other areas, especially as we move forward with this nascent trade policy forum."

For example, he says, the United States and India have a common interest in developing biotechnology. Also, they recognize the need for greater liberalization of policies that limit investment in infrastructure or agribusiness, where development is to the advantage of both.

For the trade relationship to grow, it's important that U.S. firms continue to see India as an attractive place to do business. "I think the jury is still out on this," says Bhatia. "There was a lot of excitement, stimulated in part by the President's visit here, and that does give the relationship momentum. But if American companies run into problems such as tariffs or non-tariff barriers, regulations that make doing business difficult over here, they're going to look very quickly at opportunities in other parts of the world where they don't face such barriers. And India is not that far from economies like those of Southeast Asia where you have also pretty aggressive, fast growing economies and rapid liberalization."

American businesses are excited about the dialogue, happy to see the U.S. and Indian governments engaged on a senior level, pleased that their problems are getting attention, says Bhatia. "But they also expect to see results, which means, for instance, that the restrictions on foreign direct investment are removed, or barriers that discourage them from trading or investing here, such as regulatory barriers."

As an example, Bhatia mentioned Harley-Davidson, the American manufacturer of large motorcycles, a niche

Courtesy Harley-Davidson Motor Company

American businesses expect India to remove import barriers against products such as Harley-Davidson motorcycles, says Karan Bhatia.

exporter whose products find customers around the world. "Indian tariffs on large motorcycles are on the order of 100 percent. And not only that, but they have regulatory barriers, emission standards, that effectively only allow you to import much, much smaller motorcycles," says Bhatia. "It's not as if the Indians are doing this to protect their homegrown industry. They don't *make* motorcycles the size of Harley. But trying to get the bureaucracy to move on this, to move on the issue of both the tariff and the non-tariff barrier has been a tough chore."

This is the kind of thing that the Americans are going to keep pushing in the developing trade dialogue "because American businesses like Harley should have access to the Indian market and Indian consumers should have access to American products," says Bhatia. "Our market is very, very open to Indian products. In fact, we give them preferential access through our GSP (generalized system of preferences) program. But we need to see that reciprocal access is being offered by the Indians."

Bhatia sees an important change compared to 20 years ago in that "the Indian government is trying to work to eliminate these obstacles. There are always challenges that governments face in bringing together their agencies, which sometimes have less forward leaning propensities," he comments.

On the other hand, the issue of Indian professionals being able to travel easily to the United States is a significant issue, and there are U.S. banking, agriculture and industrial product regulations that the Indian government has raised concerns about. "We've been trying to be responsive to their issues as well," says Bhatia. One result is that a 17-year debate was ended and Indian mangoes will be ready to import to the United States next year.

"The reality is that global trade should benefit both sides," says Bhatia. India has a distinct advantage over the United States in terms of trade right now. We run a deficit of billions of dollars in two-way trade with India. Is that a problem? I don't think so. I would like to see U.S. companies have a level playing field here and more market access to be able to compete vigorously. But at the end of the day, what I want to see is a growing, thriving bilateral relationship."

Bhatia's father, from Gorakhpur, Uttar Pradesh, emigrated to the United States in the 1960s. Bhatia says he is part of the growing Indian American community in the United States that has been responsible for focusing people in the U.S. government and industry on the economic possibilities that lie within India. "It's not so much that you do anything differently being Indian American, but you do pay attention to the opportunities here perhaps a little more," Bhatia says. "So when choosing which countries to focus one's limited negotiating time with, perhaps India gets a little bit more of an opportunity. But again, that only lasts for as long as you actually can progress." □